

Befesa S.A.

société anonyme

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Grand Duchy of Luxembourg

R.C.S. Luxembourg B 177697

(the "Company")

<p>REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY DATED 27 MAY 2021 DRAWN UP IN ACCORDANCE WITH ARTICLE 420-26 (5) OF THE LUXEMBOURG LAW OF 10 AUGUST 1915 ON COMMERCIAL COMPANIES, AS AMENDED</p>

This report is drawn up in accordance with article 420-26 (5) of the law of 10 August 1915 on commercial companies, as amended (the "Law"), for the extraordinary general meeting of shareholders to be held on 30 June 2021, at 13:00 CEST (or on such later date, if reconvened) (the "EGM").

The board of directors of the Company (the "Board") hereby presents an explanatory report on the proposal which has been put to the EGM for consideration, to authorise the Board to suppress or limit statutory preferential subscription rights of shareholders of the Company in relation to increases of the share capital of the Company within the framework of the authorised capital of the Company as proposed in the agenda item (1) of the EGM.

I. Background

An extraordinary general meeting of the shareholders of the Company held on 18 October 2017 resolved to authorise the Board to increase the Company's share capital, within the limits of the authorised capital of the Company (including, for the avoidance of doubt, the Company's issued share capital), as currently provided for in article 6, paragraph 1 of the articles of association of the Company, in an amount of one hundred eleven million forty-seven thousand five hundred ninety-five euro and fourteen cents (EUR 111,047,595.14) and, as currently provided for in article 6, paragraph 2 of the articles of association of the Company, in an amount of one hundred thirty-eight million eight hundred nine thousand four hundred ninety-five euro and thirty-two cents (EUR 138,809,495.32) in the context of a merger of the Company with another legal entity, for a period of five years after the date of the General Meeting creating the authorised share capital, i.e. the Board is authorised to increase the issued share capital within the limits of the authorised share capital of the Company until 18 October 2022.

The Board has, as at the date of the present report, not yet utilised the authorised capital provided for in article 6, paragraph 1 and paragraph 2 of the articles of association of the Company.

In order to provide for more flexibility, the Board proposes that the EGM:

- (i) amends the terms of the authorised share capital of the Company in order to:
 - (a) specify that the authorised share capital of the Company no longer includes but excludes the issued share capital of the Company;

- (b) specify that the aggregate amount of the authorised share capital of the Company shall henceforth be set at forty-four million two hundred thirty-three thousand eight hundred forty-eight Euro and ninety seven cents (EUR 44.233.848,97.-), divided into fifteen million nine hundred thirty three thousand two hundred ninety three (15.933.293.-) ordinary shares without nominal value, which amounts correspond to the difference between (i) the current authorised share capital of the Company in an amount of one hundred thirty-eight million eight hundred nine thousand four hundred ninety-five euro and thirty-two cents (EUR 138,809,495.32), divided into forty-nine million nine hundred ninety-nine thousand nine hundred ninety-eight (49,999,998.-) ordinary shares without nominal value, which may currently be used in the context of a merger of the Company with another legal entity and (ii) the currently issued share capital of the Company in an amount of ninety-four million five hundred seventy-five thousand six hundred forty-six euro and thirty-five cent (EUR 94,575,646.35), divided into thirty-four million sixty-six thousand seven hundred five (34,066,705) ordinary shares without nominal value;
- (c) specify that out of the aforesaid amount of the authorised share capital of the Company corresponding to forty-four million two hundred thirty-three thousand eight hundred forty-eight Euro and ninety seven cents (EUR 44.233.848,97.-), divided into fifteen million nine hundred thirty three thousand two hundred ninety three (15.933.293.-) ordinary shares without nominal value, up to an amount of twenty-seven million seven hundred sixty-one thousand nine hundred Euro and eighteen cents (EUR 27,761,900.18.-), divided into ten million (10,000,000.-) ordinary shares without nominal value shall only be used in the context of a merger with or an acquisition of another entity or business or any other transaction for the purpose of achieving external growth, including without limitation by way of take-over bid, share exchange offer and/or squeeze-out techniques. Indeed, the Board proposes to the EGM that the current wording as it appears in article 6 paragraph 2 of the articles of association of the Company referring to the expression "merger" prevents alternative transactions of external growth which legally speaking do not qualify as a merger. Therefore, the Board proposes that the reference to "merger" as aforesaid shall be extended to *"a merger with or an acquisition of another entity or business or any other transaction for the purpose of achieving external growth, including without limitation by way of take-over bid, share exchange offer and/or squeeze-out techniques"*;
- (ii) renews the authorisation to the Board to increase the Company's share capital in accordance with the terms and within the limits of the authorised capital of the Company for a period of five (5) years after the date of the General Meeting deciding on the amendment of the terms of the authorised capital (i.e. the date of the EGM).

II. Resolutions concerning the authorised share capital of the Company submitted to the EGM

It is proposed that the EGM adopts the following resolutions related to the authorised share capital of the Company:

1. Decision:

- (i) to amend the terms of the authorised capital of the Company;
- (ii) to approve the renewal of the authorisation to the board of directors of the Company to increase the Company's share capital in accordance with the terms and within the limits of the authorised share capital for a period of five (5) years after the date of the general meeting of shareholders of the Company deciding on the amendment of the terms of the authorised share capital;
- (iii) to approve the report of the board of directors of the Company pursuant to article 420-26 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, relating to the possibility of the board of directors of the Company to suppress or limit statutory preferential subscription rights of the shareholders in relation to the increase of the share capital of the Company within the framework of the authorised capital of the Company;
- (iv) to grant to the board of directors of the Company all powers to carry out capital increases within the limit of the authorised capital of the Company and suppress or limit statutory preferential subscription rights of the shareholders of the Company on the issue of new shares; and
- (v) to subsequently amend article 6 of the articles of association of the Company so that it shall read as follows:

"Article 6. Authorised Capital

The authorised capital of the Company (excluding, for the avoidance of doubt, the Company's issued share capital) is set at forty-four million two hundred thirty-three thousand eight hundred forty-eight Euro and ninety seven cents (EUR 44.233.848,97.-), divided into fifteen million nine hundred thirty three thousand two hundred ninety three (15.933.293.-) Shares, out of which up to an amount of twenty-seven million seven hundred sixty-one thousand nine hundred Euro and eighteen cents (EUR 27,761,900.18.-), divided into ten million (10,000,000.-) Shares shall only be used in the context of a merger with or an acquisition of another entity or business or any other transaction for the purpose of achieving external growth, including without limitation by way of take-over bid, share exchange offer and/or squeeze-out techniques.

The Board of Directors is authorised, up to the maximum amount of the authorised capital, to (i) increase the issued share capital in one or several tranches with or without share premium, against payment in cash or in kind, by conversion of claims on the Company or in any other manner (ii) issue subscription and/or conversion rights in relation to new Shares or instruments within the limits of the authorised capital under the terms and conditions of warrants (which may be separate or linked to Shares, bonds, notes or similar instruments issued by the Company), convertible bonds, notes or similar instruments; (iii) determine the place and date of the issue or successive issues, the issue price, the terms and conditions of the subscription of and paying up on the new Shares and instruments and (iv) remove or limit the statutory preferential subscription right of the shareholders.

The Board of Directors may authorise any person to accept on behalf of the Company subscriptions and receive payment for Shares or instruments issued under the authorised capital.

The above authorisation is valid for a period ending five (5) years after the date of the General Meeting creating or renewing the authorised capital. The above authorisation may be renewed, increased or reduced by a resolution of the General Meeting voting with the quorum and majority rules set for the amendment of the Articles of Association.

Following each increase of the issued share capital in accordance with this article 6, article 5 of the Articles of Association will be amended so as to reflect the capital increase. Any such amendment will be recorded in a notarial deed upon the instructions of the Board of Directors or of any person duly authorised by the Board of Directors for this purpose.”

III. Justification for the potential suppression or limitation of statutory preferential subscription rights within the framework of an authorisation granted to the Board for a period of five years and the authorisation to the Board to set the issue price in that context

The Board would like to draw attention to the importance of the Company being able to act quickly and have flexibility in increasing the share capital of the Company, according to the needs of the Company, and therefore, proposes to the EGM to authorise the Board to limit or suppress the statutory preferential subscription rights of the shareholders in the event of potential future capital increases and to set the issue price in case of the issue of new shares. In particular, the authorised share capital with the facility for the Board to suppress/limit statutory preferential subscription rights and to set the issue price of new shares, offers the Company the following advantages:

- the flexibility required to be active in the capital markets, raise funds and, thus, to carry out significant transactions on short notice;
- the possibility to raise the necessary funds to meet the Company's financing and re-financing needs without delay, to strengthen its liquidity, its debt to equity ratios, and to optimize equity as a source of funding so as to reduce the overall cost of external funding;
- the possibility to take advantage of opportunities in potential merger with or an acquisition of another entity or business or any other transaction for the purpose of achieving external growth, including without limitation by way of take-over bid, share exchange offer and/or squeeze-out techniques, by enabling the Company to acquire shares and other assets on the best possible terms at short notice;
- the possibility to convert bonds and other convertible securities, if any, into shares issued by the Company;
- the protracted procedure to convene an extraordinary general meeting and to offer shares on a statutory preferential subscription right basis to shareholders over a minimum fourteen day period (as required by law) can be circumvented, if in the best interests of the Company, noting that such a protracted procedure may be incompatible with the Company's needs and lead to missed opportunities for potential new transactions which require funding within an expedited timeframe;

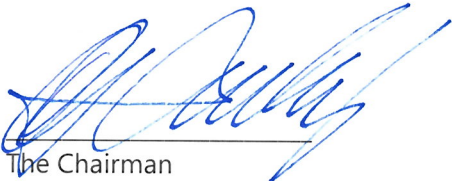
Consequently, the Board proposes to the EGM:

- (i) to amend the terms of the authorised capital of the Company;
- (ii) to approve the renewal of the authorisation to the Board to increase the Company's share capital in accordance with the terms and within the limits of the authorised share capital for a period of five (5) years after the date of the general meeting of shareholders of the Company deciding on the amendments of the terms of the authorised share capital;
- (iii) to approve the report of the Board pursuant to article 420-26 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, relating to the possibility of the Board to suppress or limit statutory preferential subscription rights of the shareholders in relation to the increase of the share capital of the Company within the framework of the authorised capital of the Company;
- (iv) to grant to the Board of the Company all powers to carry out capital increases within the limit of the authorised capital of the Company and suppress or limit statutory preferential subscription rights of the shareholders of the Company on the issue of new shares; and
- (v) to subsequently amend article 6 of the articles of association of the Company.

This report is addressed to the EGM which is scheduled for 30 June 2021 and any subsequent EGM which is convened due to lack of quorum at the first-convened meeting.

Luxembourg 27 May 2021

The Board of Directors



The Chairman